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WHERE WILL YOUR RETIREMENT MONEY COME FROM?

What workers anticipate in terms of retirement income sources may differ considerably from what retirees actually experience. For many people, retirement income may come from a variety of sources. Here's a quick review of the six main sources:

Social Security

Social Security is the government-administered retirement income program. Workers become eligible after paying Social Security taxes for 10 years. Benefits are based on each worker's 35 highest earning years. If there are fewer than 35 years of earnings, non-earning years are averaged in as zero. In 2023, the average monthly benefit is estimated at $1,827.[1,2]

Personal Savings and Investments

Personal savings and investments outside of retirement plans can provide income during retirement. Retirees often prefer to go for investments that offer monthly guaranteed income over potential returns.

Individual Retirement Account

Traditional IRAs have been around since 1974. Contributions you make to a traditional IRA may be fully or partially deductible, depending on your individual circumstances. In most circumstances, once you reach age 73, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA). Withdrawals from Traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. You may continue to contribute to a Traditional IRA past age 70½ as long as you meet the earned-income requirement.

Roth IRAs were created in 1997. Roth IRA contributions cannot be made by taxpayers with high incomes. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals also can be taken under certain other circumstances, including as a result of the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

Defined Contribution Plans

Many workers are eligible to participate in a defined-contribution plan such as a 401(k), 403(b), or 457 plan. Eligible workers can set aside a portion of their pre-tax income into an account, which then accumulates, tax-deferred.

In most circumstances, you must begin taking required minimum distributions from your 401(k) or other defined contribution plan in the year you turn 73. Withdrawals from your 401(k) or other defined contribution plans are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty.

Defined Benefit Plans

Defined benefit plans are "traditional" pensions—employer–sponsored plans under which benefits, rather than contributions, are defined. Benefits are normally based on factors such as salary history and duration of employment. The number of traditional pension plans has dropped dramatically during the past 30 years.[3]

Continued Employment

In a recent survey, 73% of workers stated that they planned to keep working in retirement. In contrast, only 23% of retirees reported that continued employment was a major or minor source of retirement income.[4]

Expected Vs. Actual Sources of Income in Retirement

What workers anticipate in terms of retirement income sources may differ considerably from what retirees actually experience.

Citations

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HOW WILL THE ECONOMY REACT TO AI?

Artificial intelligence (AI) tools are already invading every aspect of our lives. Debates are ongoing about how it will infiltrate individual industries. Governments are working to understand AI and determine how to regulate something that affects much more than the digital space. Its potential uses are being realized everywhere, from musicians turning 50-year-old demo recordings into fully realized hit singles to firms analyzing data to increase productivity, maximize security, and even develop new medicines. The potential for AI is a fast-moving beast, with new tools emerging so quickly that they sometimes make existing ones obsolete just months after they become available.

It has certainly made many people nervous. An online educator surveyed 800 executives about their futures with AI. Almost half of the respondents believed that many of the job skills vital to the employees of various industries, including C-suite executives, may be irrelevant in just two years.[1,2]

This is some scary talk, to be certain. However, it is important to note that such change is inevitable. Just as the telephone put the telegraph out to pasture and the commercialization of the Internet changed how every company does business, AI will change things. However, not all aspects of the change will be bad or negative.

For those in the workforce, AI represents this generation's pivot point. Just as prior generations got used to offices centered around emails and messaging tools, so will this generation of workers get used to the many AI tools that will help them work better and more efficiently. Jobs at all levels will change to incorporate emerging innovations. Executives will have access to resources that simplify their tasks and expand their abilities.

AI promises to help make a massive leap forward in terms of what people can accomplish, and its tools can help people do tasks more precisely and at previously impossible speeds. This sort of innovation always has growing pains. However, in the long run, it represents incredible potential for the economy to grow in new directions, uplifting the industries that every company changes and opening avenues that never existed before.

Although AI challenges the economy, investors have faced this challenge during every innovative period. As your trained financial professional, I will consider big and small changes, and I look forward to hearing any questions you may have about the future of AI.

Citations

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FILING FINAL TAX RETURNS FOR THE DECEASED

When a family member passes away, there are many decisions that need to be made and many emotions to handle. The last thing anyone thinks about is taxes.

Unfortunately, even the deceased can't escape taxation. If the departed family member earned taxable income during the year in which they died, then federal taxes may be owed. An executor or a survivor must, therefore, file a final federal income tax return (Form 1040).[1]

Similarly, if the deceased individual had a sizable estate or assets that might generate income in the future, the estate may owe taxes. Federal estate tax forms pertaining to the decedent's estate may need to be filed (Form 1041, Form 706).[2,3]

The information in this material is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties. Please consult a professional with tax expertise if you find yourself in this situation.

Income Taxes

The Internal Revenue Service generally gives you until April 15 of the year following the taxpayer's death to file a final 1040 form. If the deceased was married, a surviving spouse has the option to file a final joint federal tax return for the last year in which the deceased lived.[4]

If you file the return online, the IRS provides instructions on all of this. If you are filing a paper return, you must write "Deceased," the decedent's name, and the date of death at the top of the 1040 form. An appointed personal representative and/or surviving spouse must sign this return per IRS guidelines. If a refund is due, you may need to file a Form 1310 (Statement of Person Claiming Refund Due a Deceased Taxpayer).[4,5]

Estate Taxes

If an estate is large enough, Form 706 (the United States Estate Tax Return) is due to the IRS within nine months of the death of the deceased, with a 6-month extension permitted. The individual federal estate tax exemption is $13.61 million for 2024, so an estate smaller than $13.61 million may not be faced with estate taxes unless the deceased individual made substantial monetary gifts before their passing.[6,7]

When the decedent's estate has an executor or administrator (in IRS terminology, an "appointed personal representative"), they must sign the return for the decedent. For a joint return, the spouse must also sign. Alternatively, a survivor of the deceased can file the return.[4]

If an estate generates more than $600 in gross yearly income within 12 months of that taxpayer's death, it will also be necessary to file Form 1041 (U.S. Income Tax Return for Estates and Trusts), usually by April 15 of the year after the year in which the individual died. Should 100% of the income-generating assets of the deceased be exempt from probate, the need to file Form 1041 is removed. Estates required to file Form 1041 should consult a tax professional.[8]

Lastly, there are some cases where expenses paid before death can be deductible. Under certain circumstances, part of the cost of treating a final illness may be deducted on the deceased's final federal tax return.[9]

You Are Not Alone

A death in the family can take a heavy toll. In the event of such a tragedy, the last thing you may want to do is deal with the related financial issues. Contact us – we are here to help.

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